

To members of the California State Senate:

I am returning Senate Bill 438 without my signature.

This bill would (1) codify executive order Executive Order D-74-03 to fully reimburse local agencies for the wildfires that occurred in southern California commencing October 21, 2003, (2) provide full reimbursement to local agencies for December 22, 2003, San Simeon earthquake, and (3) provide enhanced net operating loss treatment to individuals and businesses for losses sustained as a result of the Southern California wildfires or San Simeon earthquake, or related casualties.

I am fully supportive of codifying the Executive Order to provide 100 percent reimbursement to local agencies for the devastating southern California wildfires and included \$8.5 million to fund that reimbursement in my January Governor's Budget proposal.

This bill, however, also includes a significant expenditure increase and revenues losses that are not included in my budget proposal. This bill would cost the State \$3 million for the Office of Emergency Services to fully reimburse local agencies for the San Simeon earthquake without any regard to the availability of State revenues. Finally, enhanced net operating loss treatment would result in a General Fund revenue loss of \$18 million over the next few years. Consequently, due to the State's current fiscal constraints, I am vetoing this bill.

Sincerely,

Arnold Schwarzenegger